

**BUTTE-MEADE SANITARY WATER DISTRICT**

**FINANCIAL REPORT**

**DECEMBER 31, 2013 AND 2012**



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**DAVIDPUMMEL & ASSOCIATES<sup>LLP</sup>** • Certified Public Accountants / Business & Personal Advisors

BUTTE-MEADE SANITARY WATER DISTRICT  
DECEMBER 31, 2013 AND 2012

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Butte-Meade Sanitary Water District  
Newell, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Butte-Meade Sanitary Water District (the District) as of and for the year ended December 31, 2013 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 24, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Butte-Meade Sanitary Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Butte-Meade Sanitary Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Butte-Meade Sanitary Water District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect, and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*  
(CONTINUED)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2013-1 that we consider to be significant deficiencies.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Butte-Meade Sanitary Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Butte Meade Sanitary Water District's Response to Findings**

The District's response to the findings identified in our audit is described in the accompanying Schedule of Current Findings and Responses. The District's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.





INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*  
(CONCLUDED)

As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

*David Pummel & Associates, LLP*

June 24, 2014



BUTTE MEADE SANITARY WATER DISTRICT  
SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2013

**FINDING 2013-1**

**SEGREGATION OF DUTIES**

**CRITERIA**

An adequate segregation of duties strengthens the effectiveness of the internal control process.

**CONDITION FOUND**

There is a lack of segregation of duties over receipts and disbursements within the District.

**CAUSE**

The size of the district staff does not provide for an optimum segregation of duties.

**EFFECT**

Two employees perform most procedures of the receipting process and another employee performs most procedures of the disbursement process.

**RECOMMENDATION**

The board of directors and manager should continue to perform all practical oversight and review functions.

**MANAGEMENT'S RESPONSE**

Management and the board of directors will continue to perform oversight and review functions and will implement additional oversight and review procedures where practical.





## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Butte-Meade Sanitary Water District  
Newell, South Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of Butte-Meade Sanitary Water District (the District), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair



## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Butte-Meade Sanitary Water District, as of December 31, 2013 and 2012, and the respective changes in financial position, and, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 8 and 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Butte-Meade Sanitary Water District's basic financial statements. The supplementary information schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2014, on our consideration of the Butte-Meade Sanitary Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Butte-Meade Sanitary Water District's internal control over financial reporting and compliance.

*David Pummel & Associates, LLP*

June 24, 2014





**BUTTE-MEADE SANITARY WATER DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013**

**FINANCIAL HIGHLIGHTS**

Butte Meade Sanitary Water District's (the District) net position increased by \$71,199 from 2012 to 2013. The increase was due in part to a grant received from the South Dakota Department of Natural Resources for the customer meter replacement project. The remainder of the project financing came from a loan from the state. The District had replaced approximately 50% of customer meters to the new remote read system at year-end.

Water sales and other sales are directly linked to customer demand. 2013 water sales and other sales decreased \$31,883 from 2012 due to decreased demand. Drought conditions in 2012 were not present in 2013. Other sales reflect both new construction and repair and maintenance done by District customers. Customers buy material at cost, plus sales tax, through the District. Customer payments constitute other sales.

In 2013, total operating expenses decreased \$6,269. Repair costs decreased \$8,049 due to continued replacement of problem lines.

The District retired \$61,279 in existing debt during the year. The District borrowed an additional \$43,648 from the South Dakota Board of Water and Natural Resources Drinking Water State Revolving Fund loan for the ongoing water meter replacement and billing system upgrade. Repayment on the total loan of \$202,270 began in June 2013.

**OVERVIEW OF FINANCIAL STATEMENTS**

This report consists of the management discussion and analysis, the basic financial statements, and supplementary information. All District activities are conducted within one enterprise fund.

**ECONOMIC FACTORS AND NEXT YEAR'S RATES**

There were no significant changes in operations for the District from the prior year. The District will continue to replace manual water meters with remote read meters during 2014. One loan to Rural Development was paid in full in December 2013.





BUTTE-MEADE SANITARY WATER DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2013 AND 2012

**ECONOMIC FACTORS AND NEXT YEAR'S RATES (CONTINUED)**

Traditionally all loan obligations are met, and any excess transferred to the operation and maintenance account to fund larger projects, maintenance, or repairs that would exceed normal budgeted amounts.

**FINANCIAL ANALYSIS OF THE DISTRICT**

The District's statements of net position and activities changed as follows:

	<u>2013</u>	<u>2012</u>
Current assets	\$ 359,913	\$ 340,920
Restricted cash and funded reserves	187,418	182,313
Property and equipment	2,504,538	2,481,217
Total assets	<u>\$ 3,051,869</u>	<u>\$ 3,004,450</u>
Current liabilities	\$ 75,148	\$ 75,536
Meter deposits	72,336	70,661
Long-term debt	1,287,483	1,312,550
Total liabilities	<u>1,434,967</u>	<u>1,458,747</u>
Net position -		
Net investment in capital assets	1,152,905	1,111,820
Restricted	113,733	110,744
Unrestricted	350,264	323,139
Total net position	<u>\$ 1,616,902</u>	<u>\$ 1,545,703</u>
Water and other operating revenue	\$ 795,426	\$ 827,309
Operating expense	( 666,397)	( 672,666)
Non-operating income and expense	( 57,830)	( 18,751)
Increase (decrease) in net position	71,199	135,892
Net position - beginning of year	1,545,703	1,409,811
Net position - end of year	<u>\$ 1,616,902</u>	<u>\$ 1,545,703</u>

**CONTACTING DISTRICT MANAGEMENT**

This financial report is designed to provide the members, customers, and creditors with a general overview of the District's finances and demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Butte-Meade Sanitary Water District, PO Box 5, Newell, SD 57760.



**BUTTE-MEADE SANITARY WATER DISTRICT**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2013 AND 2012**

**ASSETS**

	<u>2013</u>	<u>2012</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 73,827	\$ 85,386
Savings	131,943	107,739
Accounts receivable - billed	38,506	25,866
Accounts receivable - unbilled	31,697	33,608
Accrued interest receivable	183	184
Inventory	64,431	63,357
Prepaid expenses	<u>19,326</u>	<u>24,780</u>
<b>TOTAL CURRENT ASSETS</b>	<u>359,913</u>	<u>340,920</u>
<b>RESTRICTED CASH AND FUNDED RESERVES</b>		
Rural Development reserve - cash	58,163	55,863
Rural Development reserve - certificate of deposit	55,570	54,881
Meter deposits held for members - cash	10,272	8,266
Meter deposits held for members - certificate of deposit	<u>63,413</u>	<u>63,303</u>
	<u>187,418</u>	<u>182,313</u>
<b>PROPERTY AND EQUIPMENT</b>		
Furniture and equipment	37,034	35,787
Buildings and structures	98,683	98,683
Equipment - miscellaneous	27,498	27,498
Collection & distribution system	5,153,295	5,042,198
Land	14,087	14,087
Vehicles	<u>53,360</u>	<u>44,571</u>
	5,383,957	5,262,824
Less accumulated depreciation	( 2,879,419)	( 2,781,607)
	<u>2,504,538</u>	<u>2,481,217</u>
<b>TOTAL ASSETS</b>	<u>\$ 3,051,869</u>	<u>\$ 3,004,450</u>

See accompanying notes.



# LIABILITIES AND NET POSITION

	<u>2013</u>	<u>2012</u>
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 64,150	\$ 56,714
Accounts payable	9,846	17,770
Accrued interest payable	<u>1,152</u>	<u>1,052</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>75,148</u>	<u>75,536</u>
 <b>DEPOSITS</b>		
Meter deposits	<u>72,336</u>	<u>70,661</u>
	<u>72,336</u>	<u>70,661</u>
 <b>LONG-TERM DEBT, NET CURRENT MATURITIES</b>		
Mortgages and notes payable	<u>1,287,483</u>	<u>1,312,550</u>
	<u>1,287,483</u>	<u>1,312,550</u>
 <b>TOTAL LIABILITIES</b>	<u>1,434,967</u>	<u>1,458,747</u>
 <b>NET POSITION</b>		
Net investment in capital assets	1,152,905	1,111,820
Restricted	113,733	110,744
Unrestricted	<u>350,264</u>	<u>323,139</u>
 <b>TOTAL NET POSITION</b>	<u>1,616,902</u>	<u>1,545,703</u>
 <b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 3,051,869</u>	<u>\$ 3,004,450</u>





**BUTTE-MEADE SANITARY WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUE</b>		
Water sales	\$ 766,205	\$ 802,803
Other sales	29,221	24,506
	<u>795,426</u>	<u>827,309</u>
<b>OPERATING EXPENSES</b>		
Auto	19,653	18,809
Depreciation	110,423	92,747
Insurance	29,903	27,094
Mileage	421	489
Miscellaneous expense	--	2,000
Directors' fees	3,400	3,900
Office expense, dues, and travel	16,026	22,576
Payroll taxes	18,538	19,499
Professional fees	9,728	17,836
Maintenance and supplies	102,751	110,800
Employee benefits	58,603	49,324
Wages	242,327	254,887
Utilities	54,624	52,705
	<u>666,397</u>	<u>672,666</u>
<b>OPERATING INCOME</b>	<u>129,029</u>	<u>154,643</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Gain on disposal of equipment	1,387	5,079
Grant income	11,954	43,444
Interest income	946	1,059
Interest expense	( 72,717)	( 68,933)
	<u>( 58,430)</u>	<u>( 19,351)</u>
<b>NET INCOME (LOSS)</b>	70,599	135,292
Add additional memberships	<u>600</u>	<u>600</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	71,199	135,892
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>1,545,703</u>	<u>1,409,811</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 1,616,902</u>	<u>\$ 1,545,703</u>

See accompanying notes.



BUTTE-MEADE SANITARY WATER DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	\$ 786,372	\$ 819,870
Cash payments to employees for services	( 319,468)	( 323,710)
Cash payments to other suppliers of goods and services	( 240,050)	( 262,224)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>226,854</u>	<u>233,936</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of certificates of deposit	( 799)	( 981)
Interest received	<u>947</u>	<u>1,086</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>148</u>	<u>105</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Grants	11,954	43,444
Memberships	<u>600</u>	<u>600</u>
<b>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	<u>12,554</u>	<u>44,044</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of equipment	( 133,744)	( 278,556)
Proceeds from disposal of equipment	1,387	6,420
Proceeds from long-term debt	43,648	158,622
Payments of long-term debt	( 61,279)	( 45,962)
Interest paid	( 72,617)	( 69,015)
<b>NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>	( 222,605)	( 228,491)
<b>NET INCREASE (DECREASE) IN CASH</b>	16,951	49,594
<b>CASH - BEGINNING OF PERIOD</b>	<u>257,254</u>	<u>207,660</u>
<b>CASH - END OF PERIOD</b>	<u>\$ 274,205</u>	<u>\$ 257,254</u>

See accompanying notes.



BUTTE-MEADE SANITARY WATER DISTRICT  
STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 129,029	\$ 154,643
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	110,423	92,747
(Increase) decrease in		
Accounts receivable	( 10,729)	( 9,585)
Inventory	( 1,074)	( 7,345)
Prepaid expenses	5,454	( 1,674)
Increase in		
Meter deposits	1,675	2,146
Accounts payable	( 7,924)	3,004
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 226,854</u>	 <u>\$ 233,936</u>

See accompanying notes.





BUTTE-MEADE SANITARY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

**NOTE 1 - NATURE OF ACTIVITIES**

The Butte-Meade Sanitary Water District (the District) is a government entity comprised of one enterprise fund. The financial statements are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenue when earned and expenditures when a liability is incurred. The District is a subdivision of the government of the State of South Dakota.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. Accounts receivable - unbilled  
Unbilled accounts receivable represent estimated water revenues earned by the District which had not been billed to customers at year end.
- B. Inventory  
Inventory is stated at cost, as determined on the first-in, first-out method.
- C. Property and equipment  
Property and equipment are carried at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the depreciable assets. The estimated useful lives are as follows:

Furniture and fixtures	5-10 years
Buildings and structures	10-40 years
Equipment	5-10 years
Collection system	5-40 years
Distribution system	10-50 years

The District's policy is to capitalize those assets with a useful life greater than one year, and an initial acquisition cost of \$200 or more. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized. The District capitalizes interest expense during construction projects.



BUTTE-MEADE SANITARY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Vacation and sick leave

Annual leave is earned by the full-time employees at a rate of two weeks after 1 year, three weeks from 10 to 19 years and four weeks after 20 years. Sick leave is earned by full-time employees at a rate of twelve (12) days per year. Upon termination the employees are not entitled to receive compensation for their annual leave or sick leave balances. The District's policy for annual leave and sick leave is that the employee must use or lose leave balances by January 1 of each year.

E. Revenue and expense classifications

In the proprietary fund's Statement of Revenues, Expenses and Changes in Net Position, revenue and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

F. Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

G. Cash and cash equivalents

For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments and deposits with a term to maturity of three months or less to be cash equivalents.

H. Deposits and Investments

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.





BUTTE-MEADE SANITARY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2013 AND 2012

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)**

**I. Equity classifications**

Equity is classified as net position and is displayed in three components:

1. Net investment in capital assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position - Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

**J. Application of net position**

It is the District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

**NOTE 3 - DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK, AND INTEREST RATE RISK**

**Deposits and investments**

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The District's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as





BUTTE-MEADE SANITARY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2013 AND 2012

**NOTE 3 - DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK, AND INTEREST RATE RISK (CONCLUDED)**

the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - In general, SDCL 4-5-6 permits District funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

**Credit Risk** - State law limits eligible investments for the District as discussed above. The District has no investment policy that would further limit its investment choices.

The District had no investments as of December 31, 2013.



BUTTE-MEADE SANITARY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2013 AND 2012

NOTE 4 - PROPERTY AND EQUIPMENT

Summary by category of changes in property and equipment:

<u>Category</u>	<u>Balance December 31, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2013</u>
Land	\$ 14,087	\$ --	\$ --	\$ 14,087
Furniture and equipment	35,787	1,247	--	37,034
Buildings and structures	98,683	--	--	98,683
Equipment - miscellaneous	27,498	--	--	27,498
Collection and distribution system	5,042,198	111,097	--	5,153,295
Vehicles	44,571	21,400	12,611	53,360
	<u>\$ 5,262,824</u>	<u>\$ 133,744</u>	<u>\$ 12,611</u>	<u>\$ 5,383,957</u>

Summary by category of changes in accumulated depreciation:

<u>Category</u>	<u>Balance December 31, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2013</u>
Furniture and equipment	\$ 26,092	\$ 2,210	\$ --	\$ 28,302
Buildings and structures	38,347	2,540	--	40,887
Equipment - miscellaneous	14,765	2,264	--	17,029
Collection and distribution system	2,679,001	97,602	--	2,776,603
Vehicles	23,402	5,807	12,611	16,598
	<u>\$ 2,781,607</u>	<u>\$ 110,423</u>	<u>\$ 12,611</u>	<u>\$ 2,879,419</u>



BUTTE-MEADE SANITARY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2013 AND 2012

NOTE 5 - LONG-TERM DEBT

Long-term debt consisted of the following at December 31:

	<u>2013</u>	<u>2012</u>
5% revenue bond due Rural Development, payable in annual installments of \$5,870 including interest, matured December 2013.	\$ --	\$ 4,289
6.625% revenue bond due Rural Development, payable in monthly installments of \$5,236 including interest, maturing June 2032.	662,054	680,363
5.125% revenue bond due Rural Development, payable in monthly installments of \$667 including interest, maturing December 2016.	22,163	28,845
5% revenue bond due Rural Development, payable in monthly installments of \$574 including interest, maturing December 2016.	19,139	24,915
4.125% revenue bond due Rural Development, payable in monthly installments of \$1,939 including interest, maturing July 2048.	424,373	430,010
3% loan due National Rural Water System, payable in monthly installments of \$676 including interest, maturing August 2018.	35,280	42,220





BUTTE-MEADE SANITARY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2013 AND 2012

NOTE 5 - LONG-TERM DEBT (CONTINUED)

	<u>2013</u>	<u>2012</u>
2.25% loan due South Dakota Department of Natural Resources in quarterly installments of \$5,661 including interest. Payments begin June 15, 2013. The loan matures April 2023.	<u>188,624</u>	<u>158,622</u>
	1,351,633	1,369,264
Less current maturities	( 64,150)	( 56,714)
	<u>\$ 1,287,483</u>	<u>\$ 1,312,550</u>

The annual requirements to amortize all long-term debt outstanding as of December 31, 2013, including interest payments of \$872,957 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 64,150	\$ 67,600	\$ 131,750
2015	67,049	64,701	131,750
2016	70,021	61,647	131,668
2017	58,065	58,790	116,855
2018	57,850	55,626	113,476
2019-2023	287,258	245,142	532,400
2024-2028	265,191	165,309	430,500
2029-2033	236,299	76,622	312,921
2034-2038	72,776	43,564	116,340
2039-2043	89,415	26,925	116,340
thereafter	83,559	7,031	90,590
	<u>\$ 1,351,633</u>	<u>\$ 872,957</u>	<u>\$ 2,224,590</u>

The terms of the revenue bonds require that the District maintain a debt service account. A sum equal to the minimum of 1/12 of the annual installment coming due on the next succeeding January 1, is to be deposited to this account each month. Principal and interest payments are to be made from this account. At December 31, 2013, the District was in complete compliance with these terms.



BUTTE-MEADE SANITARY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2013 AND 2012

NOTE 5 - LONG-TERM DEBT (CONCLUDED)

The terms of the revenue bonds also require that all the surplus net revenues, in excess of the amounts required in the maintenance of the debt service account noted above, be deposited in a reserve account. This account shall be used for major repairs, maintenance, and improvements on the water system. No funds were available for deposit to this account as of December 31, 2013.

A summary of the changes in long-term debt follows:

	Balance December 31, 2012	Proceeds	Retired	Balance December 31, 2013	Due Within One Year
Revenue Bonds -					
Rural					
Development	\$ 1,168,422	\$ --	(\$ 40,693)	\$ 1,127,729	\$ 38,530
Note Payable -					
National Rural					
Water System	42,220	--	( 6,940)	35,280	7,168
Note Payable -					
South Dakota					
Department of					
Natural					
Resources	158,622	43,648	( 13,646)	188,624	18,452
	<u>\$ 1,369,264</u>	<u>\$ 43,648</u>	<u>(\$ 61,279)</u>	<u>\$ 1,351,633</u>	<u>\$ 64,150</u>

NOTE 6 - RETIREMENT PLAN

All employees, except for part-time, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.



BUTTE-MEADE SANITARY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2013 AND 2012

**NOTE 6 - RETIREMENT PLAN (CONTINUED)**

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the fiscal years ended December 31, 2013, 2012, and 2011 were \$14,501, \$15,136, and \$12,921 respectively, equal to the required contributions each year.

**NOTE 7 - RURAL DEVELOPMENT RESERVES**

Cash held in Rural Development reserve accounts consists of funds set aside for debt service, repairs, replacements, improvements, and additions as approved by Rural Development.

**NOTE 8 - INSURANCE COVERAGE**

The District has the following insurance coverage:

Alteris Insurance Services, November 15, 2013 to November 15, 2014	
Property coverage	\$ 2,847,111
Umbrella coverage	\$ 1,000,000
Liability coverage	
Occurrence limit	\$ 1,000,000
Aggregate limit	\$ 3,000,000
Medical expense limit	\$ 5,000
Automobile coverage	
Liability	\$ 1,000,000
Uninsured motorists	\$ 1,000,000
Underinsured motorists	\$ 1,000,000
Workers Compensation	
Accident limit (per accident)	\$ 500,000
Disease limit (per employee)	\$ 500,000
Disease policy limit	\$ 500,000
Directors and Officers Liability	\$ 1,000,000





BUTTE-MEADE SANITARY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
DECEMBER 31, 2013 AND 2012

**NOTE 8 - INSURANCE COVERAGE (CONTINUED)**

Western Surety Company  
Fidelity Bond #5240227, October 31, 2013 to  
October 31, 2014 \$175,000 clerk/treasurer

**NOTE 9 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2013, the District managed its risks as follows:

Employee Health Insurance

The District does not provide health insurance for its employees.

Liability Insurance

The District purchases liability insurance for risks related to torts; theft of or damage to property; errors and omissions of directors and officers; and automobile accident or damage from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation

The District purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits

The District provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

**NOTE 10 - SUBSEQUENT EVENTS**

The District had no subsequent events requiring recording or disclosure in the financial statements through June 24, 2014, which is the date the financial statements were available to be issued.



BUTTE-MEADE SANITARY WATER DISTRICT  
SUPPLEMENTARY INFORMATION SCHEDULES  
FOR THE YEAR ENDED DECEMBER 31, 2013

METER DEPOSITS

Water meter deposits are held separately in depository accounts in the name of the District.

COMPENSATION OF DIRECTORS

For the years ended December 31, 2013 and 2012, fees of \$3,400 and \$3,900 and mileage of \$359 and \$490 were paid to directors.

RURAL DEVELOPMENT RESERVES

In accordance with the provisions of the regulatory agreement, restricted cash is held by First National Bank which is insured by the Federal Deposit Insurance Corporation. Restricted cash is to be used for debt service, repairs, replacements, and improvements of property as approved by Rural Development. Restricted cash transactions for the year ended December 31, 2013 are as follows:

Balance - December 31, 2012	\$ 110,744
Deposits	2,989
Withdrawals	<u>--</u>
Balance - December 31, 2013	113,733
Required balance	<u>100,994</u>
Amount in excess	<u>\$ 12,739</u>

AGED ACCOUNTS RECEIVABLE

Current	\$ 61,917
31-60 days	3,154
61-90 days	955
91 days and over	<u>4,177</u>
	<u>\$ 70,203</u>

